



A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Status Review

# **Gila Bend Unified School District No. 24**

As of June 16, 2005

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**Debra K. Davenport**  
Auditor General

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AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

September 8, 2005

Governing Board  
Gila Bend Unified School District No. 24  
P.O. Box V  
Gila Bend, AZ 85337-0420

Members of the Board:

In our December 22, 2004, compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2003. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of June 16, 2005. Our review covered the deficiencies we had previously communicated to management. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our status review, we determined that the District still has not complied with the USFR. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections. Further, as of the date of this letter, we have not received the District's audit reports or USFR Compliance Questionnaire for the year ended June 30, 2004. These reports were due by March 31, 2005. Consequently, the District is also in noncompliance with the USFR for nonsubmission of that year's reports. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's continued noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport  
Auditor General

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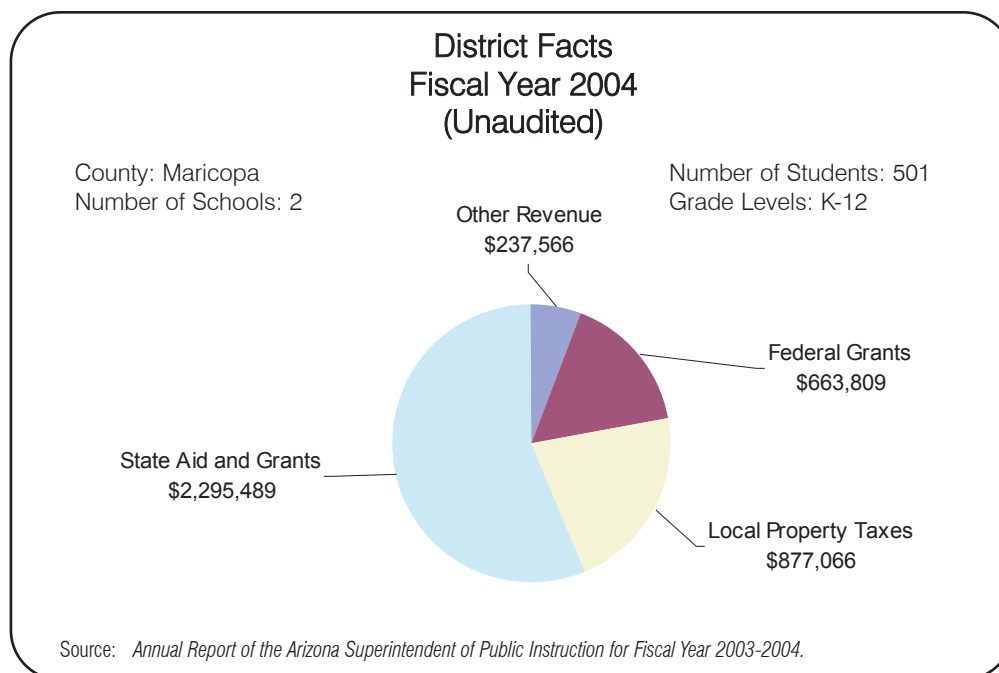


# INTRODUCTION

Gila Bend Unified School District No. 24 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$4 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# The District should maintain a complete and accurate capital assets list

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have accurate lists of these assets and to ensure they are properly accounted for.

The District did not effectively account for its investment in capital assets, as the capital assets list was incomplete.

However, the District did not have a complete and accurate capital assets list. For example, the list did not include identification numbers or locations for equipment items, and as a result, the District could not ensure that all appropriate equipment items were included on the list or that items listed could be found at the schools. In addition, the District did not reconcile its physical inventory to the capital assets list or the current year's list to the previous year's list.

## Recommendations

The following procedures can help the District ensure that its capital assets are adequately controlled:

- Maintain a capital assets list of all items costing \$5,000 or more and with useful lives of 1 year or more. Include all required information for each item on the list.
- Maintain a stewardship list of all equipment items costing between \$1,000 and \$5,000.
- Record capital assets at actual historical cost. If the District cannot locate documentation to support the actual historical costs of its capital assets, it may use estimated historical costs obtained from appraisals, bond issue documents, governing board meeting minutes, or vendor catalogs.
- Perform a physical inventory of all equipment items at least every 3 years. Assign an employee who has no custodial responsibilities to reconcile the physical inventory results to the list and add items to or remove items from the list as necessary.
- Reconcile the prior year's capital assets list to the current year's list, and make all necessary corrections.

USFR pages VI-E-2 and 3 describe the information that should be included on the capital assets list.

The forms on USFR pages VI-E-13 and 14 may be used to document the reconciliation of capital assets additions to capital expenditures and the current year's capital assets list to the previous year's list.

# The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow USFR guidelines. For example, the District did not always obtain oral or written price quotations for purchases that required them. In addition, in our December 22, 2004, compliance review report, the District was cited for not always following competitive sealed bidding requirements. However, because the District did not make any new purchases subject to these requirements between the date of that report and the date of our status review, we were unable to determine whether the District had implemented procedures to ensure that all appropriate items are purchased through competitive sealed bids or proposals.

## Recommendations

To strengthen controls over purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should establish and follow policies and procedures that ensure:

- Invitations for bids or requests for proposals are issued for purchases of construction, materials, or services exceeding \$33,689. The purchase may be a single item or it may be a collection of items that, in the aggregate, exceed \$33,689.
- Oral price quotations are obtained from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations are obtained from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

School District Procurement Rules provide the requirements for invitations for bids and requests for proposals.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

# The District's controls over auxiliary operations and student activities monies should be strengthened

Auxiliary operations monies are district monies raised in connection with bookstore and athletic activities. The District holds student activities monies raised through



Poor cash controls left auxiliary operations and student activities monies susceptible to loss, theft, or misuse.

students' efforts for safekeeping. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, the Governing Board did not establish proper oversight. Specifically, cash collection reports were not prepared to document and reconcile sales and cash collected. Additionally, the District inappropriately allowed a student club to use bingo as a fundraising event. Further, the District recorded a cash donation as revenue in the Auxiliary Operations Fund rather than in the Gifts and Donations Fund.

## Recommendation

To strengthen controls over auxiliary operations and student activities monies, the District and student clubs should document sales by issuing prenumbered cash receipt forms or tickets, by using a cash register, or by performing counts of items for sale before and after the event. The District should then prepare a cash collection report or activity report to reconcile sales to the cash collected. For events where documenting items sold is not practical, such as bake sales, the District should document the amount of cash collected.

Also, in accordance with Arizona Revised Statutes (A.R.S.) §15-1121, the District Governing Board should approve all student fundraising activities. Activities such as raffles or bingo are not allowable fundraisers for school-controlled student clubs, as they do not qualify as tax-exempt organizations under A.R.S. §43-1201. Additionally, the District should ensure that all donated cash is deposited in the appropriate gifts and donations fund.

## The District should maintain and report accurate financial information

The District reported inaccurate amounts in its Annual Financial Report.

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District also needs to report accurate information to the public and agencies from which it receives funding. To achieve these objectives, management should ensure that its accounting records and annual financial report (AFR) are accurate and complete. However, the District did not fully accomplish these objectives. Specifically, the District did not classify Auxiliary Operations Fund revenues and expenditures in accordance with the USFR Chart of Accounts. Additionally, the District did not provide accurate and complete information on its AFR since amounts reported did not always agree with the District's accounting records and adopted expenditure budget. Further, journal entries were not always supported by documentation.

## Recommendations

The following procedures can help the District record and report accurate accounting information:

- Classify all revenue and expenditure transactions of district funds, including auxiliary operations monies, in accordance with the USFR Chart of Accounts.
- Use the District's final adopted expenditure budget and accounting records to obtain budgeted and actual expenditures and revenues for the AFR.
- Require a second employee to verify that amounts reported on the AFR agree with the accounting records and expenditure budget before submitting it to ADE.
- Ensure that each journal entry contains explanations, attachments, or document references to support the entry.

## The District should strengthen controls over payroll expenditures

The District spends tax dollars to pay its employees, so it is essential that the District follows procedures designed to help ensure that payroll amounts are appropriate before committing district monies. However, the District did not have a delayed payroll system, and therefore, paid employees before confirming that all hours paid for were actually worked.

## Recommendations

To strengthen controls over payroll expenditures, the District should establish a delayed payroll system that allows adequate time between the last day of the pay period and the day employees are paid to ensure that employees are paid only for wages earned. A.R.S. §23-351 allows school districts to establish a lag time of up to 2 weeks.